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Treasury Circular 2019/03

Unrestricted Distribution

For all Departments and Offices of Parliament (excluding NZSIS and GCSB)

Chief Executives

Directors of Finance/Chief Accountants/Chief Financial Officers

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2019 INTERNAL CONTROL ASSESSMENT TOOL (ICAT) – EVALUATING THE INTERNAL CONTROL ENVIRONMENT

Summary

1. This circular provides details about the Internal Control Assessment Tool (ICAT) survey and outlines your part in the process, which will include identifying suitable survey participants in your organisation and supplying their contact details to the Treasury. Please ensure that these details are supplied to the Treasury by 9 May, in accordance with these instructions. For further details see paragraphs 10 to 12.
2. In accordance with s29 of the Public Finance Act 1989 (PFA), the Secretary to the Treasury is required to prepare the annual Financial Statements of the Government (FSG) and to attest that they are based on an adequate across-government internal controls system. The survey outlined in this circular provides additional assurance that, combined with the Chief Executive and Chief Financial Officer assurances, enables the Secretary to the Treasury to fulfil this obligation.
3. The 2019 evaluation process will again involve the collection of information from a sample of your staff by electronic survey, scheduled to take place in May/June 2019. This process will culminate in a report back to you in July 2019. The information collected through the survey will be used by the Treasury as part of the evaluation of the adequacy of internal controls in the Government, but it should also offer the management teams of participating Departments a wider

perspective on the strength of their internal controls environment, and opportunities to identify and rectify potential weaknesses.

4. Our experience from previous years' suggests the survey process will continue to have minimal impact on participating staff members' time (with a median time of 12 minutes to complete the survey in 2018).
5. The process for the 2019 survey has similar requirements and a similar timeframe to last year's ICAT survey. Departments should submit contributor details to the Treasury by **9 May**, and survey responses are to be completed by **14 June**. Key dates are provided in the table below (all items are due for delivery by 5pm on the relevant date).

| Date | Deliverable |
|---------------------|---|
| Prior to 9 May 2019 | Departments send a heads up email to their staff identified to be potential contributors to check availability and any concerns |
| 9 May 2019 | Departments submit survey contributor details to the Treasury using the spreadsheet as referenced in Annex One |
| 30 May 2019 | The Treasury issues the ICAT survey to contributors |
| 14 June 2019 | Survey responses are completed by contributors |
| 30 July 2019 | Survey results are reported back to Departments |

6. The deadline for completion of the ICAT process will have some flexibility to assist with management of follow-ups, and website management. All participants will have 10 working days to respond to the 10-15 minute survey. For further details see paragraphs 13 to 17.
7. The Treasury website¹ contains information and guidance on the principles of internal control that will be assessed by the ICAT process. Further background and frequently asked questions can be found in paragraphs 18 to 27.
8. We would appreciate any feedback or suggestions you wish to offer about the survey during or after the process.
9. If you have any questions on this matter, please contact Ben Wu or Ken Warren (contact details provided above).

Jayne Winfield
 Manager, Fiscal Reporting
 For Secretary to the Treasury

¹ <https://treasury.govt.nz/information-and-services/state-sector-leadership/guidance/internal-controls>

Further Detail

Identifying Survey Contributors

10. To ensure contributors are chosen at random the Treasury is requesting Departments to identify and supply the details of as many suitable survey contributors as practicable for your organisation. If the pool size is sufficient, only a sample (a subset) of those will be randomly selected by the Treasury to participate in the survey. More information on how to identify suitable survey contributors, and details the Treasury needs, are provided in Annex One.
11. It is important that the contributor details are submitted in the exact format prescribed in Annex One (so they can be automatically uploaded to the survey platform), and that the email addresses provided are accurate.
12. As logon details will be sent directly to contributors' email addresses at the launch of the survey, it is important that they are advised beforehand that they have been enlisted to complete the survey and that they will be receiving that email. A pro forma email has been provided (Annex Two) to help Departments enlist contributors for the survey. You will need to identify someone to email all selected staff to ensure availability and identify any concerns they might have before contributor lists are submitted on 9 May.

The "ICAT" Survey

13. A link to an electronic survey will be emailed to a sample of staff ("contributors") in all Departments and Offices of Parliament. The survey asks contributors to rate the applicability of nine statements made about the internal controls environment in their organisation. A number of supporting questions accompany the survey to help contributors make a judgement for each statement. The statements and the supporting questions are provided in Annex Three.
14. The survey is web-based and relatively intuitive. Instructions for completing the survey will be emailed to contributors with logon details. The survey takes approximately ten minutes to complete, but it may take longer if contributors choose to provide explanatory comments for their ratings, which is encouraged.
15. Reminders will be sent to contributors throughout the survey, to those not yet finished, encouraging them to complete the survey.
16. Once the deadline for the survey has passed, the Treasury will be asking Department CFOs or the nominated contact person to assist in chasing-up any late contributions from participants. We will send separate communications on this matter closer to the deadline.
17. Once all contributions are received the Treasury will collate and share the survey results with the Departments concerned. If the survey results indicate that a particular Department's system of internal controls might require attention, the Treasury will be in contact to discuss any follow-up action required.

ICAT Background Information

18. In accordance with s29 of the Public Finance Act 1989 (PFA), the Secretary to the Treasury is required to prepare the annual Financial Statements of the Government (FSG) and to attest that they are based on an adequate across-government internal controls system.
19. In making this attestation, reliance is primarily placed on the individual statements of responsibility prepared by Departments in relation to their financial statements, and on the sign-off process of independent auditors on those financial statements. However a greater level of assurance about the adequacy of Departments' internal controls is required.
20. Consequently, the Treasury conducts an annual process to evaluate Departments' internal controls and to obtain the level of assurance it requires. In 2018 the Treasury successfully ran the Internal Control Assessment Tool (ICAT) survey to evaluate control environments; this process will be repeated in 2019.
21. The ICAT focuses on principles of good practice for evaluating and improving internal control systems. It does this by highlighting a number of areas where the practical application of such principles often fails.
22. The ICAT survey integrates internal controls as an element of wider financial management expectations. This broader view encompasses not just stewardship responsibilities, to which the ICAT is directed, but also financial management's role in ensuring decision maximise value for money while also considering all other impacts of these decisions. It therefore complements the developments the Treasury has been making with other initiatives supporting the uplift of strategic financial management.
23. While the survey relies on the self-assessment of contributors, a level of objectivity in the results is achieved by:
 - a. surveying a range of staff with different financial management responsibilities in each Department (not just finance staff)
 - b. the selection of reasonably large samples; and
 - c. (where the lists of potential survey candidates are sufficiently large) the random selection by the Treasury of a subset of contributors to take part in the survey.

The following provides response's to common questions about ICAT

24. Is the survey confidential?

It is not possible to guarantee complete confidentiality however we do take steps to maintain privacy where possible. Individuals will not be named in any reporting from the survey. The survey ratings for each statement will be reported on a by-category basis, affording individuals a level of confidentiality where there is more than one contributor in a particular category, but not otherwise. Experience has shown that reporting the ratings on a disaggregated basis (like this) has enabled Departments to better interpret them. Note that any additional comments volunteered by contributors will be reported in such a manner that they cannot be attributed to the contributor concerned.

25. Will results be reported in a league table?

No. We expect to see some volatility in the results over time, and this may well be attributable to changes in contributors' views rather than actual changes in the strength of the controls environment. Therefore, the Treasury will not be sharing individual Department's results beyond the corporate centre, and external auditors.

26. Will benchmarking data be available?

The ICAT reports will show each Department's ratings alongside the average ratings provided by all of the Departments taking part in the survey. As the 2019 ICAT survey uses predominately the same questions, a high level comparison of results to the prior year will also be provided.

27. How do I use the department reports?

The reports provide assessment against nine principles of good practice for evaluating and improving internal control systems, focusing on areas where the practical application of internal control often falls short. The Treasury has prepared "Making Use of the ICAT Scores: Guidance for Departments" suggesting actions to take if the results of the ICAT scores are not aligned with the departments risk appetite. This guidance can be accessed from <https://treasury.govt.nz/publications/guide/making-use-icat-scores-guidance-departments>

ANNEX ONE: IDENTIFYING SURVEY CONTRIBUTORS

To achieve a level of confidentiality and impartiality in the survey ratings, the Treasury prefers to randomly select a sample of survey contributors from each Department. To achieve this we are asking Departments to supply a large pool of potential candidates for each of the five contributor categories listed in the table below. The Treasury will then randomly select a sample (a subset) of contributors from each pool.

Indicative pool sizes for each category are given in the table below, with larger-sized Departments expected to provide a larger pool of contributors than smaller agencies. The Treasury recommend Departments provide a pool size as large as possible. Providing a pool larger than suggested will help ensure the level of confidentiality remains as large as possible.

All Departments should try to identify at least one contributor in each category. Although this may not be possible for some Departments, for example those that do not have an internal audit function.

| Category Number | Contributor Category | Minimum Pool size (number of contributors) | | |
|-----------------|----------------------|--|---------------------------------|---------------------------|
| | | Small Agency (<50 staff) | Medium Agency (50 to 500 staff) | Large Agency (500+ staff) |
| 1 | Budget holder | 2-4 | 3-10 | 8-15 |
| 2 | CFO (or equivalent) | 1-2 | 1-2 | 1-2 |
| 3 | Finance staff | 1-2 | 2-5 | 4-10 |
| 4 | Internal auditor | 0-1 | 1-2 | 2-5 |
| 5 | Senior manager | 1-2 | 1-3 | 2-5 |

For example, where possible a medium-sized agency with 400 staff would be expected to supply the details of around:

| | |
|--------|--------------------|
| 10 | Budget holders |
| 1 or 2 | CFOs or equivalent |
| 5 | Finance staff |
| 1 or 2 | Internal auditors |
| 3 | Senior managers |

Further instructions for identifying contributors and supplying the necessary details to the Treasury are included in the “ICAT Contributor Details Return” spreadsheet attached to the email from our CFISnet Helpdesk advising the release of this circular. The spreadsheet is also attached to the circular on CFISnet.

Please provide the information as set out in the below example from the spreadsheet

| Email Address | First Name | Last Name | Department | Category Name |
|--------------------------------|------------|-----------|-----------------|----------------------|
| <i>ben.wu@treasury.govt.nz</i> | <i>Ben</i> | <i>Wu</i> | <i>Treasury</i> | <i>Finance Staff</i> |

Please email the completed spreadsheet to ben.wu@treasury.govt.nz by 9 May 2019.

ANNEX TWO: PRO FORMA EMAIL FOR ENLISTING CONTRIBUTORS

The following text has been provided to help Departments enlist contributors for the survey. If you choose to use it, please tailor it to your specific requirements.

Dear {Insert Name},

The Treasury is running its annual web-based Internal Control Assessment Tool (ICAT) survey to evaluate the strength of our internal controls environment, a necessary part of the assurance process for the Government's year-end financial statements.

The survey will ask a cross-section of staff to rate the applicability of nine statements made about our internal controls environment.

I propose to provide your name and email address to the Treasury as a potential candidate to take part in the survey. If selected by the Treasury you will be emailed logon information to access the survey, which can be completed at any time between 30 May and 14 June 2019.

No pre-work will be required to complete the survey and it should only take 10 to 15 minutes to complete.

Please let me know by {insert day, date} if you have any concerns about being involved in this process. Otherwise, I will put your details forward.

Regards,

{Insert Name}

ANNEX THREE: SURVEY STATEMENTS AND SUPPORTING QUESTIONS

The following table shows the statements and supporting questions for the 2019 ICAT survey.

Contributors are classified into five different role categories. While each category scores the applicability of the same nine statements, the set of supporting questions posed by the survey differs for each category, based on the generic scope of the different roles. The “X”s indicate which questions will be asked of each contributor category.

| Statements and Supporting Questions | | Contributor Categories | | | | |
|-------------------------------------|---|------------------------|----------|---------------|------------------|----------------|
| | | Budget Holders | CFO | Finance Staff | Internal Auditor | Senior Manager |
| 1 | Internal controls support the Ministry's/Department's objectives. | X | X | X | X | X |
| 1.1 | Does the organisation's planning allocate resources strategically to deliver the organisation's aims, objectives and priorities? | X | X | X | | X |
| 1.2 | Is there an up-to-date risk management strategy and policy, including risk appetites and methodologies for assessing risk? | X | X | | X | X |
| 1.3 | Do risk management arrangements include formal identification, recording, and assessment of risks? | X | X | | X | X |
| 1.4 | Do the risk registers link risks to organisation objectives? | X | X | | X | X |
| 1.5 | Do risk management arrangements include monitoring the development of risks and the effectiveness of management actions through indicators and early warning signs? | X | | | X | X |
| 1.6 | Are internal controls targeted to eliminate preventable risks cost-effectively? | X | X | X | X | |
| 2 | The Ministry/Department determines roles and responsibilities. | X | X | X | X | X |
| 2.1 | Does the organisation have structured arrangements in place to obtain the assurance needed to enable the Chief Executive to assert confidence in the Financial Statements in relation to the internal controls of the organisation? | | X | X | X | |
| 2.2 | Do management arrangements include properly resourced action plans with named, responsible individuals to mitigate and manage risks? | X | X | | X | X |
| 2.3 | Are the roles and responsibilities of finance staff clearly defined and is this evidenced by a high level of awareness among managers about who to contact and when? | X | X | X | X | X |
| 2.4 | Are delegated authorities and responsibilities clear? | X | X | X | X | X |

| Statements and Supporting Questions | | Contributor Categories | | | | |
|-------------------------------------|---|------------------------|-----|---------------|------------------|----------------|
| | | Budget Holders | CFO | Finance Staff | Internal Auditor | Senior Manager |
| 3 | The achievement of internal control objectives is linked to individuals' performance objectives. | X | X | X | X | X |
| 3.1 | Does your performance appraisal appropriately cover financial management competencies? | X | X | X | X | X |
| 3.2 | Are managers at all levels appropriately held accountable for performance and financial outcomes for activities under their control, with meaningful feedback and appraisal? | X | X | | X | X |
| 3.3 | Are managers at all levels held accountable for the value-for-money implications of their decisions, with meaningful feedback and appraisal? | X | X | | X | X |
| 4 | There is sufficient competency in fulfilling internal control responsibilities. | X | X | X | X | X |
| 4.1 | Is there a financial management competency framework that identifies competencies needed at different levels of responsibility throughout the organisation? | | X | X | | X |
| 4.2 | Are positions that include responsibility for budgets and spending required to have specified financial management competencies? | X | X | X | X | X |
| 4.3 | Has the demand for financial management competency from within the organisation increased in recent years (e.g. in matching organisational objectives with resources, setting and monitoring desired resilience and performance, providing feedback)? | X | X | | | X |
| 4.4 | Is there sufficient financial management competency in both finance and other areas? | X | X | X | X | X |
| 4.5 | Is the finance function performance managed through defined standards that are regularly reported and monitored? | | X | X | X | |
| 4.6 | Are senior management members and staff aware of relevant codes of conduct and is compliance high? E.g. Code of conduct for the State Services, professional body's codes of conduct. | X | X | | X | X |
| 4.7 | Do external auditors and inspectors comment favourably on the capacity of the finance function? | | X | X | X | |
| 5 | The "tone at the top" motivates staff to adhere to internal control policies | X | X | X | X | X |
| 5.1 | Do senior management team members as individuals show leadership by example | X | X | X | X | X |

| Statements and Supporting Questions | | Contributor Categories | | | | |
|-------------------------------------|---|------------------------|----------|---------------|------------------|----------------|
| | | Budget Holders | CFO | Finance Staff | Internal Auditor | Senior Manager |
| | in their own personal conduct? | | | | | |
| 5.2 | Does senior management set the tone that finance matters? | X | X | X | X | X |
| 5.3 | Do senior managers demonstrate an understanding of the financial management rules by actually applying them? | X | X | X | X | X |
| 5.4 | Is the senior management team involved in determining key risks and responses? | X | X | X | X | X |
| | | | | | | |
| 6 | Internal controls respond to risks. | X | X | X | X | X |
| 6.1 | Does the organisation regularly review its internal control procedures and update them where necessary? | X | X | X | X | |
| 6.2 | Are there arrangements to escalate risks to the senior management team if the scale would have a significant impact? | X | X | X | X | X |
| 6.3 | Does the leadership team take prompt action in a transparent manner to remedy any breakdowns in internal control procedures? | | X | | X | X |
| 6.4 | Do you have access to up-to-date procedures to prevent, detect, and investigate misconduct, fraud and corruption? | X | X | X | X | X |
| | | | | | | |
| 7 | Regular communication regarding the internal control system takes place. | X | X | X | X | X |
| 7.1 | Are all staff involved in financial processes (e.g. invoice processing or year-end accounts) aware of their role and impact, whether finance staff or not? | X | X | X | X | X |
| 7.2 | Does the organisation monitor and act to ensure staff comply with its policies and procedures? | X | X | X | X | X |
| 7.3 | Does the organisation regularly review the effectiveness of anti-fraud and anti-corruption arrangements? | | X | | X | |
| 7.4 | Do you know what to do if you suspect misconduct, fraud or corruption? | X | X | X | X | X |
| | | | | | | |
| 8 | The Ministry/Department regularly monitors and evaluates controls. | X | X | X | X | X |
| 8.1 | Does the organisation regularly monitor and act to ensure compliance with relevant laws (e.g. Public Finance Act) and regulations (e.g. Treasury Instructions), and that expenditure is lawful? | X | X | X | X | X |
| 8.2 | Does the organisation monitor and act to ensure compliance with its documented internal control procedures? | X | X | X | X | X |
| 8.3 | Is the senior management team given a consolidated view of the organisation's | | X | | X | X |

| | Statements and Supporting Questions | Contributor Categories | | | | |
|----------|--|------------------------|----------|---------------|------------------|----------------|
| | | Budget Holders | CFO | Finance Staff | Internal Auditor | Senior Manager |
| | finances and risks, including from Crown entities monitored and important delivery partners? | | | | | |
| 8.4 | Does the senior management team regularly review the effectiveness of the organisation's risk management arrangements, including assurance from internal audit? | | X | | X | X |
| 8.5 | Does the organisation monitor and act to ensure that its financial policies or standing financial instructions (including procurement) are applied appropriately? | X | X | X | X | X |
| 8.6 | Are internal control breaches reported to the appropriate management personnel, investigated and appropriate corrective action taken where necessary? | X | X | X | X | X |
| | | | | | | |
| 9 | The Ministry/Department is accountable and transparent. | X | X | X | X | X |
| 9.1 | Does the organisation have an effective Audit Committee? | | X | X | X | |
| 9.2 | Was the annual audit letter free of weaknesses identified in the operation of internal controls? | | X | X | X | |
| 9.3 | Does the organisation publish a Statement of Responsibility covering Internal Controls, including internal financial control and risk management, signed by the Chief Executive? | | X | | X | X |
| 9.4 | Does the organisation publicise how the public can register concerns or complaints? | X | X | | X | X |
| 9.5 | Does the organisation consistently meet its obligations under the Official Information Act 1982? | X | X | X | X | X |